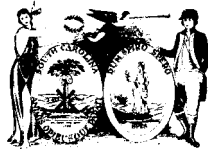


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

January 27, 2003

Ms. Carol Disbro, Director of Reimbursement  
Integrated Health Services, Inc.  
The Highlands  
910 Ridgebrook Road  
Sparks, Maryland 21152

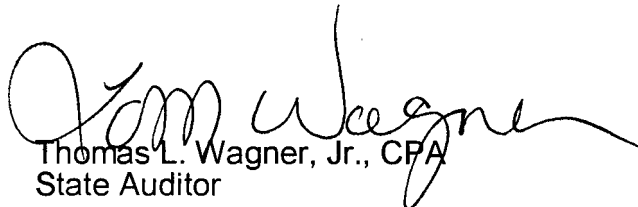
Re: AC# 3-MRH-J8 – Magnolia Manor – Rock Hill, Inc.

Dear Ms. Disbro:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**MAGNOLIA MANOR – ROCK HILL, INC.**

**ROCK HILL, SOUTH CAROLINA**

**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-MRH-J8**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 23, 2002

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Rock Hill, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of Magnolia Manor – Rock Hill, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

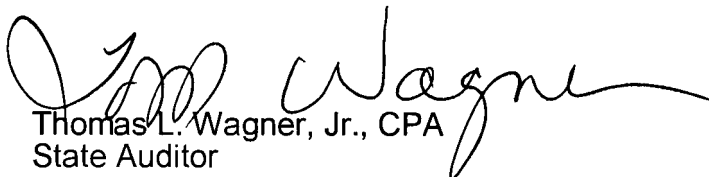
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Rock Hill, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Rock Hill, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
October 23, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**MAGNOLIA MANOR – ROCK HILL, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-MRH-J8

10/01/99-  
09/30/00

Interim Reimbursement Rate (1)	\$91.10
Adjusted Reimbursement Rate	<u>88.51</u>
Decrease in Reimbursement Rate	\$ <u><u>2.59</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1999 Through September 30, 2000  
AC# 3-MRH-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.91	\$50.88	
Dietary		8.26	9.69	
Laundry/Housekeeping/Maintenance		<u>7.63</u>	<u>8.24</u>	
Subtotal	<u>\$4.82</u>	55.80	68.81	\$55.80
Administration & Medical Records	<u>\$1.69</u>	<u>9.87</u>	<u>11.56</u>	<u>9.87</u>
Subtotal		65.67	<u>\$80.37</u>	65.67
<u>Costs Not Subject to Standards:</u>				
Utilities		2.22		2.22
Special Services		1.05		1.05
Medical Supplies & Oxygen		4.10		4.10
Taxes and Insurance		1.36		1.36
Legal Fees		<u>.05</u>		<u>.05</u>
<b>TOTAL</b>		<u>\$74.45</u>		74.45
Inflation Factor (3.00%)				2.23
Cost of Capital				7.74
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				1.69
Cost Incentive				4.82
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.76)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>1.59</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$88.51</u>

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,562,485	\$ 119 (4)	\$ 2,275 (4) 35,899 (5)	\$1,524,430
Dietary	315,003	311 (4)	-	315,314
Laundry	67,943	-	-	67,943
Housekeeping	150,969	-	-	150,969
Maintenance	72,334	71 (4)	-	72,405
Administration & Medical Records	451,140	5,555 (4) 35,899 (5)	29,384 (2) 31,778 (3) 4,135 (4) 42,754 (6) 7,749 (8)	376,794
Utilities	84,955	-	-	84,955
Special Services	47,232	355 (4) 1,034 (6)	8,566 (7)	40,055
Medical Supplies & Oxygen	153,300	3,311 (7)	-	156,611
Taxes and Insurance	52,084	-	-	52,084
Legal Fees	1,988	-	-	1,988



**MAGNOLIA MANOR – ROCK HILL, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	284,762	17,328 (1) <u>1,270 (9)</u>	7,883 (6)	295,477
Subtotal	3,244,195	65,253	170,423	3,139,025
Ancillary	50,623	-	-	50,623
Non-Allowable	281,320	29,384 (2) 31,778 (3) 49,603 (6) 5,255 (7) <u>7,749 (8)</u>	17,328 (1) 1 (4) 1,270 (9)	386,490
Total Operating Expenses	<u>\$3,576,138</u>	<u>\$189,022</u>	<u>\$189,022</u>	<u>\$3,576,138</u>
Total Patient Days	<u>38,192</u>	<u>-</u>	<u>-</u>	<u>38,192</u>
Total Beds	<u>106</u>			

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$100,684	
	Accumulated Depreciation	17,298	
	Cost of Capital	17,328	
	Other Equity		\$117,982
	Nonallowable		17,328
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	29,384	
	Administration		29,384
	To remove rental payments on a capital lease		
	HIM-15-1, Section 110B		
3	Nonallowable	31,778	
	Administration		31,778
	To adjust Premiere fees		
	HIM-15-1, Section 2304		
4	Restorative	119	
	Dietary	311	
	Maintenance	71	
	Medical Records	5,555	
	Special Services	355	
	Nursing		2,275
	Administration		4,135
	Nonallowable		1
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
5	Medical Records	35,899	
	Nursing		35,899
	To reclassify salaries to the proper cost center		
	DH&HS Expense Checklist		

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Therapy Administration Cost of Capital	49,603 1,034	42,754 7,883
	To adjust home office expense HIM-15-1, Section 2304		
7	Nonallowable Medical Supplies and Oxygen Special Services	5,255 3,311	8,566
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable Administration	7,749	7,749
	To remove storage fees not related to patient care HIM-15-1, Section 2102.3		
9	Cost of Capital Nonallowable	1,270	1,270
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$307,004</u>	<u>\$307,004</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.2493</u>
Deemed Asset Value (Per Bed)	35,130
Number of Beds	<u>106</u>
Deemed Asset Value	3,723,780
Improvements Since 1981	602,914
Accumulated Depreciation at 9/30/98	<u>(989,970)</u>
Deemed Depreciated Value	3,336,724
Market Rate of Return	<u>.063</u>
Total Annual Return	210,214
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	210,214
Depreciation Expense	87,802
Amortization Expense	161
Capital Related Income Offsets	(2,700)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	295,477
Total Patient Days	<u>38,192</u>
Cost of Capital Per Diem	\$ <u><u>7.74</u></u>

**MAGNOLIA MANOR – ROCK HILL, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-MRH-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.53
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.52</u>
Reimbursable Cost of Capital Per Diem	\$ 7.74
Cost of Capital Per Diem	<u>7.74</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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